REPORT OF THE SECRETARY OF THE NAVY

Introduction

This past year has been one of remarkable accomplishment and continual improvement in the efficiency and effectiveness of our Navy and Marine Corps Team. The year 2003 witnessed the extraordinary capability of United States Naval forces to project power in support of vital national interests. Our investment in personnel, acquisitions, training, infrastructure, and operations and maintenance enabled our Naval forces to answer the President's call to action, deploy at a higher state of combat readiness, and build a more responsive surge capability.

Our men and women operating in the air, on and under the sea, and on the ground played a key role in Operation Iraqi Freedom (OIF), and prepare for follow-on stability operations during OIF II. Forward deployed, combat ready Naval forces are proving every day the unique value of sovereign forces projecting power from the sea. OIF has shown the extraordinary strategic agility and operational flexibility provided by forward deployed naval expeditionary forces.

Overview of the Naval Strategy

Guided by the President's *National Security Strategy* and the Secretary of Defense's (SECDEF) *Defense Strategy*, we continue to maintain superiority over a broad range of innovative and determined adversaries. The 2001 Quadrennial Defense Review (QDR) calls on us to give " . . . priority to investments that improve the ability to swiftly defeat an adversary from a forward deterrence posture." That desire is consistent with the inherent characteristics of Naval forces, and that priority is a guiding principle in the Department of the Navy program and budget for FY 2004 through FY2010.

Our vision and our way ahead – *Naval Power 21* and the *Naval Transformation Roadmap* – provide the framework to align, organize, and integrate our Naval forces to meet the maritime contributions to joint capabilities necessary to face the wide array of challenges that lie ahead. *Naval Power 21* defines how the Navy and Marine Corps will continue to control the sea and project power, defense and influence beyond the seas as part of a Joint Warfighting Team. The *Naval Transformation Roadmap* describes the key Naval concepts, capabilities, initiatives, process, and programs that will guide the Department's transformation efforts in support of the critical operational goals of transformation described in the 2001 QDR.

Our Naval Strategy continues to be assertive in the pursuit of new capabilities and concepts, and funds them in quantities that are relevant to tomorrow's capability needs.

In achieving our strategy, the FY 2005 budget and the associated performance goals emphasize the Department of Navy's commitment in four focus areas: (1) combat capability; (2) people; (3) technology insertion; and (4) improved business practices. First, 'combat capability' refers to a well equipped, relevant, and quickly employable Naval force as a key enabler for forcible entry, subsequent joint follow-on echelon, and redeployment. Second, 'people' encompasses the men and women of the Navy and Marine Corps Team as our most valued resource. Achieving a higher quality workplace and higher quality of life for our Sailors, Marines and civilians is our ultimate goal. Third, the application of technology is central to our Nation's military strength. Sustaining a robust science and technology effort will be the linchpin for success in the War on Terrorism. Lastly, the Department is continuously working to revitalize business practices to be more efficient and effective.

Performance Measures

The President stated that this Administration is "dedicated to ensuring that the resources entrusted to the federal government are well managed and wisely used." To achieve this, the strategy proposed in the President's Management Agenda (PMA) focuses on five government-wide initiatives: (1) Budget and Performance Integration, (2) Strategic Management of Human Capital, (3) Competitive Sourcing, (4) Financial Management Improvement, and (5) Expanding E-Government. Additionally, the September 2001 QDR established a balanced scorecard risk framework that will ensure the nation's military is properly prepared to carry out that strategy. Within this framework, there are four risk areas employed as principal management tools: operational risk, force management risk, future challenges risk, and institutional risk. Through the FY 2005 Budget, the Department of the Navy consolidates its performance management goals with those of the PMA and those of the FY 2001 (QDR).

Additionally, in an effort to incorporate metrics into the budget process, the Office of Management and Budget (OMB) has instituted the Program Performance Assessment process to identify programs measured by "stoplight" fashion in "getting to green" and providing a rating system that is consistent, objective, credible, and transparent. Programs were assessed and evaluated across a wide range of issues related to performance, including strategic planning, program management and program results. The initial programs reviewed in FY 2004 are summarized in the Department of the Navy (DON) FY 2004 Budget Highlights Book (February 2003). Current assessments for FY 2005 are consolidated in the DON FY 2005 Budget Highlights Book (February 2004), and are consistent with Government Performance and Results Act (GPRA).

Performance measures and standardized data collection methods are critical for measuring effectiveness and efficiency to support resource requirements for future strategic planning and program assessment. We continue to work with the Office of the

Secretary of Defense (OSD) and our program managers in further refining the Department's metrics and improving performance wherever possible. The Department has markedly improved its use of metrics in budgetary decisions with the FY 2005 resource management process focused on simplifying our practices and using modern models to link performance with resources. This improvement is also reflected in the FY 2005 Budget, where the percentage of resources supported by associated performance metrics was increased to 60 percent. Our program efforts are summarized below and are aligned with DoD's balanced scorecard approach, as it aligns well with our four focus areas of combat capability, people, technology, and better business practices. Amplifying metric information related to these programs can be found in detailed budget justification materials supporting the FY 2005 President's Budget to Congress.

Operational Risk

The Navy and Marine Corps performance in Operations Enduring Freedom and Iraqi Freedom demonstrated more than just combat excellence. It proved the true value of readiness, and highlighted the Navy's ability to exploit the vast maneuver space provided by the sea. During OIF, more than 50 percent of Naval forces were forward deployed. The Navy surged 164 ships worldwide in a "truly joint" global operation. This worldwide deployment, which included seven Carrier Strike Groups (CSGs) and eight large deck amphibious ships, demonstrated the agility and decisiveness of a rotational force, backed by a credible capacity to "surge" additional naval capabilities when and where they are needed. Navy and Marine Corps aircraft flew more than 8000 sorties in support of the combined coalition forces. Likewise, an overall increased readiness allowed the Marines to deploy over 68,000 combat ready Marines in less than 60 days – using the operational speed and reach of seapower. Marine Forces (I MEF) conducted the longest sequence of coordinated overland attacks in Marine Corps history, fighting ten major engagements, destroying nine Iraqi divisions during sustained combat operations covering a distance of over 450 miles inland. Eleven Maritime Prepositioned Force (MPF) ships provided the equipment and sustainment for over 34,000 Marines and Sailors and fourteen amphibious ships embarked and delivered another 12,000 Marines and Sailors and their equipment.

Do We Have the Right Forces Available?

During FY 2003, we dramatically improved naval operational availability by establishing the Fleet Response Plan (FRP), which provides the nation with increased naval capabilities and more employment options, to better meet the objectives of the *National Security Strategy* and the *Defense Strategy*, as well as to respond to the dynamic international security environment. With the implementation of our Fleet Response Plan in FY 2004, the Department of Defense will have a model for a new joint presence concept – which could be used in the Global Force Management process envisioned by senior DoD leaders – that could transform how the U.S. military is employed. The plan

holds promise for this type of change by refining the maintenance, training, and readiness process in order to increase the number and capability levels of combat ready forces throughout the Fleet. In doing so, Naval capabilities can be employed with greater flexibility and agility for a range of *Defense Strategy* missions, from security cooperation assurance exercises with allies, to deployments in times of crisis to prevent or defeat aggression.

In FY 2005, the FRP will support future policies and methods for sourcing capabilities in support of Combatant Commander requirements by transforming the Fleet into a more responsive, and adaptable force. By building upon a culture of readiness, the Department will tailor manning, maintenance and training processes to support a Naval force poised for employment in crisis and in ongoing missions for the war on terror. The improvements in readiness and availability envisioned with the FRP allow the Department to have a greater percentage of our forces employable (six to seven CSGs versus three to four CSGs). More specifically, the FRP will posture the force to surge six CSGs in a matter of days for a contingency and an additional two CSGs in less than ninety days. With the full implementation of FRP, over half of the Fleet could be deployed or postured to surge, able to arrive swiftly with persistent, sovereign combat power in support of national interests. In order to attain this improved posture and more flexible force, the FRP will modify current ship and air wing operating cycles by extending the Inter-Deployment Readiness Cycle from 24 months to 27 months.

Are the Forces Currently Ready?

The accomplishments of this past year tell the Naval force readiness story and its return on investment. Over the past two years, U.S. Naval forces, as part of an integrated joint force, have participated in the successful execution of two conflicts in support of national objectives. Because the appropriate resources were applied to increase the readiness of the Naval operating forces, they were able to support the efforts of the joint force commander in a rapid and effective manner. In FY 2005, key readiness accounts are funded to ensure these readiness levels continue.

The Department of the Navy employs several measures associated with maintaining operational readiness. In one such metric, the Navy sets operational tempo goals in the form of ship steaming days per quarter. These OPTEMPO goals are considered the minimum required for maintaining a combat ready and rapidly deployable force. The Navy met its FY 2003 OPTEMPO goals of 54 steaming days per quarter for deployed forces, and 28 steaming days per quarter for non-deployed forces. In FY 2005, as a result of implementing new readiness processes in support of the FRP, OPTEMPO goals of 51 steaming days per quarter for deployed forces and 24 days per quarter for non-deployed forces will ensure we continue to maintain a highly ready force.

Similarly, the FY 2003 Flying Hour Program met 100 percent of the required flying hour goals identified as necessary to maintain effective aviation readiness. The FY 2005 budget provides for the operation and training of ten active Navy carrier air wings and three Marine Corps air wings to meet those same goals. Additionally, improvements in readiness and availability envisioned with the FRP will allow for an overall increase in the average training readiness rate of all aircraft squadrons.

Marine Corps readiness metrics indicate the ability to provide combat ready forces to the Combatant Commanders for current and future contingencies. The Marine has taken the first step in an iterative process to develop a family of performance measures that will have applicability across the Marine Air Ground Task Force. This first step attempts to link resources to SORTS readiness ratings throughout the ground operational forces and is called the Combat Ready Day for Equipment and Training (CRED-ET). As CRED-ET data is collected and refined, the measure will provide greater predictive capability.

Maintenance rates are another measure of operational readiness. In regards to aviation depot maintenance, the Department met its FY 2003 targeted goal of providing 100 percent Primary Aircraft Authorization (PAA) for deployed squadrons and 90 percent PAA for non-deployed squadrons, as well as 100 percent of engine availability for all aircraft and 90 percent allocation of spare engine inventories. The Department's FY 2005 budget is sufficient to achieve the engine and airframe readiness goals for deployed and non-deployed squadrons.

Ship Maintenance goals for FY 2003 were met for equipment readiness (i.e. average equipment CASREP rating of 1.86 for deployed forces and 2.05 for non-deployed forces) and deferred maintenance ($36.1M). The Department's FY 2005 ship maintenance budget supports 97 percent of the notional operations and maintenance (O&M) requirements and 100 percent of the SCN refueling overhaul requirements. The FY 2005 budget also reflects the new FRP, which lengthens periods between shipyard availabilities, yet creates a more employment-capable and responsive fleet.

The Department also measures depot maintenance for Marine Corps ground equipment. The Depot Maintenance program for systems such as combat vehicles, ordnance, and missiles, provides overall repair and maintenance to ensure that all deployed equipment is fully mission capable. The FY 2005 Marine Corps Depot Maintenance program is funded at 65 percent of the estimated requirement, which balances mid-term readiness with the need to enhance modernization and transformational programs. A vital part of the ground depot maintenance effort is to ensure the reconstitution of Maritime Prepositioning Force (MPF) equipment for strategic readiness following OIF I. The MPF has historically exceeded the equipment readiness goal of 90 percent.

Force Management Risk

This past year we witnessed the first results of our human capital transformation. Our recruiting successes, coupled with our retention achievements, have resulted in much improved force manning. While maintaining a combat-ready force, we built on our mentoring philosophy, and re-emphasized our commitment to diversity to create an environment that promotes personal and professional growth while providing the kind of warfighters needed for our 21st Century Naval force. Our goal remains attracting, developing, and retaining highly skilled, diverse, and educated Sailors, Marines, and civilian workforce that will lead the 21st Century Navy.

Maintain a Quality Force

The Department met its FY 2003 force management performance goals, to include maintaining military manning levels, and meeting recruiting, retention, and quality goals. Most importantly, we developed a more responsive Force — one that surged forward with the right people, to the right place, at the right time to fulfill our national security requirements. The FY 2005 manpower investment is aimed at sustaining personnel readiness in a cost effective manner.

The end strength limits authorized for the Navy and Marine Corps under the National Defense Authorization Act for 2004 are adequate to meet all peacetime missions. Looking ahead, the Marine Corps needs to maintain end strength at 175,000 to meet critical mission requirements for the Global War on Terrorism, while the Navy's end strength goals are predicated on maintaining a high degree of readiness. At the same time, it is essential that manpower objectives enable critical capabilities efficiently. The Navy's goal is to reduce manpower requirements, where possible, through process efficiencies and the elimination of workload. This will permit both the reallocation of end strength to other critical manpower priorities, such as anti-terrorism/force protection as well as the reapplication of constrained fiscal resources to compelling non-manpower requirements, such as recapitalization. A short summary of authorized, actual and projected end strength goals are shown below.

	USN	USNR	USMC	USMCR
FY03 Actual	382,235	88,156	177,779	41,046
FY04 Projected	373,800	85,900	175,000	39,600
FY05 Projected	365,900	83,400	175,000	39,600

Additionally, the Department again met enlisted recruiting and accession goals in FY 2003, and continues to attract America's finest young men and women to national service. The Navy achieved recruiting goals for a fifth consecutive year and in December 2003 completed the 29th consecutive month of attaining national mission goals for

accessions and new contracts. The Marine Corps met its eighth year of meeting monthly and annual enlisted recruiting goals and its thirteenth year of success in officer recruiting. Both Services are well positioned for success in meeting FY 2004 officer accession requirements. The Marine Corps Reserve achieved its FY 2003 recruiting goals, assessing 6,174 Non-Prior Service Marines and 2,663 Prior Service Marines. Navy Recruiting was also successful in Naval Reserve recruiting by exceeding the enlisted goal of 12,000 recruits for FY 2003.

In regards to quality of recruits, the Marine Corps recruited over 100 percent of its goal with over 97 percent Tier I High School graduates. During the year, the Navy implemented a policy requiring 94 percent of new recruits be high school diploma graduates (HSDG), and Navy recruiters succeeded by recruiting 94.3 percent HSDG. Navy Recruiting continued to seek the best and brightest young men and women by requiring that 62 percent of recruits score above 50 on the AFQT; Navy recruiters excelled with a rate of 65.7 percent. Navy recruiting also sought to increase the number of recruits with college experience in FY 2003, recruiting more than 3,200 applicants with at least 12 semester hours of college.

Retaining the best and brightest Marines and Sailors is as important as recruiting them. The Marine Corps has achieved first-term reenlistment consistently over the past nine years. They have already achieved 79.8 percent of their first term retention goal and 59.8 percent of second tour and beyond goals with under half of the fiscal year completed. Officer retention is at a nineteen year high. Likewise, retention in the Navy has never been better. The Navy continues to enjoy a 3-year streak of retention, surpassing anything in its history with first-term reenlistment reaching 61 percent. Retention goals for all categories were exceeded; specifically, we retained 61 percent of eligible Sailors in their first term; 77 percent of Zone B; and 88 percent of Zone C. As a result, enlisted gaps at sea fell from more than 4,000 in FY 2002 to less than 1,000 today.

Ensure Sustainable Military Tempo and Maintain Workforce Satisfaction

People are our most treasured asset and the DON, in concert with DoD, continues to support a compensation strategy that moves our Sailors and Marines toward parity with private sector compensation and offers flexibility for shaping the force, while addressing manpower management challenges. The Department continues to focus on improving objective standard of living issues for Sailors, Marines, and their families, while also recognizing that quality of life expectations of this generation of Service member, and society as a whole, are higher than ever before. We improved service-member compensation and benefits by increasing active-duty service member pay by an average of 4.1 percent with targeted pay raises up to 6.25 percent. We also extended the increase in family separation pay and hostile fire and imminent danger pay through 31 December

2004 and increased the Basic Allowance for Housing (BAH) to reduce average service-member out-of-pocket expenses.

Shape the Force of the Future

Our goal in shaping the force of the future is to properly shape and size Naval manpower to meet current and future requirements. To better meet these demands, we are implementing *Marine Corps Strategy 21* and *Sea Warrior* (the human resource components of the *Naval Transformation Roadmap*). The focus is on maximizing human capital and improving Fleet readiness by ensuring Sailors with the right skills are in the right place at the right time. Specifically, *Sea Warrior* is a management and process reengineering initiative to align mission essential tasks and manpower management, career management and training processes. *Sea Warrior* is merging manpower, personnel and training functions with supporting technology to provide integrated tools and capabilities that empower Fleet commanders and the workforce.

Successful implementation of *Sea Warrior* will create a Navy in which all Sailors, active and reserve, are optimally assessed, trained, and assigned to enable the Navy to successfully execute its worldwide mission. The organizational impact is three pronged: (1) Linkage of human capital to mission objectives that enable the Navy to execute mission essential tasks; (2) empowerment of individual Sailors throughout the Navy in mapping their career paths, developing skills, and obtaining the advanced education needed to successfully operate our advanced platforms and systems; and (3) incorporating the human capital dimension throughout the Navy today and future systems and platform development.

With respect to force manning initiatives, the Navy has extended its Sea Swap program to four DD crews and three DDG crews, resulting in substantial savings in transit fuel costs and increasing our forward presence without lengthening deployment times for our Sailors. With few exceptions, we achieved C-2 manning status for all deploying battle group units at least six months prior to deployment. Additionally, as we continue to augment and replace manpower with technology, the Navy is growing a more senior force to lead and manage the increasingly technical 21st Century force. The percentage of E-4s through E-9s grew to about 72 percent, nearly halfway toward our goal of 76 percent by FY 2007.

Another key part of our human capital transformation is the Redesign of the Naval Reserve initiative. In support of the Secretary of Defense's *Rebalancing the Force* memorandum, the Navy and Marine Corps have taken a proactive rebalancing approach to the judicious and prudent use of the Reserve component to reduce stress on that component. The Navy recently commenced the implementation of a program focused on transforming the Naval Reserve so that it is fully integrated with active forces. The goal

is to rebalance active and reserve forces to improve and ensure operational readiness for forward presence and surge capabilities. The Marine Corps is focused on ensuring a balanced use of reserve component forces in order to not overuse them beyond their primary mission of augmenting and reinforcing the active component. Individual Augment Marines from the Selected Marine Corps Reserve, Individual Mobilization Augmentees (IMA), Individual Ready Reserves (IRR), and Marine Retirees are filling critical joint and internal billets along with active Marine components, demonstrating without doubt that the Marine Corps operates as a Total Force.

For our civilian workforce, the implementation of National Security Personnel System (NSPS) will be a critical component of our civilian human capital transformation. The NSPS, recently passed by Congress, provides the DON leadership with tools to better manage the civilian workforce today and shape the civilian workforce of the future. Anticipated benefits of NSPS include alignment of the human resources system with mission objectives, agility to respond to new business and strategic needs, and a reduced administrative burden. Among other attributes, this merit-based NSPS will enable the Department to recruit and retain high performing workers. Implementing guidelines are now being developed, as the DON plans to have the first DoD employees converted to the new personnel system this year. In anticipation of this conversion, the DON, in close coordination with DoD, has established an NSPS Project Management Office (PMO) to develop and execute its implementation strategy.

Future Challenges Risk

Naval warfare will continue to evolve to be able to respond to new threats in the joint environment of the future. We will be bold and continue to develop new capabilities and concepts, and fund them in quantities that are relevant to tomorrow's emerging threats. The Department has embraced transformation. The challenge is to take our vision, *Naval Power 21*, and operationalize it with technological, organizational, and doctrinal transformation.

To meet this challenge, the Department is addressing future risk with its robust recapitalization program. The FY 2005 budget contains funding for nine new construction ships and 104 aircraft in FY 2005. The program also includes funding for transformational initiatives such as LCS, V-22, DD(X), CVN-21, priority aviation capabilities, and advanced communications. The Department's objective for FY 2005 is to move forward with *Naval Power 21* capabilities, strengthen joint and combined warfighting operations, and refine our concept of global engagement, thus transforming Naval forces to better meet joint requirements of the future. To that end, we will make great strides in advancing each element of the *Naval Transformation Roadmap* – Sea Base, Sea Strike, Sea Shield, and FORCEnet.

Drive Innovative Joint Operations

In order to strengthen joint and combined warfighting capabilities, we have increased our emphasis on joint PME completion, have tasked our fleet commanders to develop the capability and skills to function as Standing Joint Task Forces, and are evaluating options for participation in the Combined Force Air component Commander's Combined Air Operations Center. The Department also improved alignment for "Joint Warfare" by publishing the Naval Operational Concept for Joint Operations, and implementing the Navy-Marine Corps TACAIR integration plan.

Additionally, the Department of the Navy is committed to building an integrated Information Operations capability throughout the operating forces. Using the OSD *IO Roadmap* guidance and *Naval Power 21* strategy, the Department has embarked upon a broad effort to mature IO in Naval forces. From the continued development of robust IO capabilities, the building of a professionalized IO community, to the formalization of IO architectures, the Department intends to maximize the advantages of this transformational warfare area.

Define Future Human Capital Skills and Competence

The recent successes in combat operations demonstrate a level of greater integration than in the past. OIF demonstrated the importance of demanding and realistic joint training to achieve a joint capability that increases the options our Naval forces provide the Nation. Transformation initiatives are often the result of emerging technologies that permit the creation of a new type of military force and approach to warfare. Training individuals is critical to taking full advantage of advanced technologies such as utilizing unmanned vehicles on, above, and in the sea; the effective operation of evolving attack and defense systems; and international data sharing systems. Training our Sailors and Marines is critical to implementing transformation initiatives and to ensure optimum results. To accommodate the demand for this training, we are transitioning training concepts and methods from the traditional school-house classroom approach to processes that involve the use of simulators, trainers, computer-based interactive curriculums, and other approaches that are media based to improve performance and increase Fleet and Expeditionary readiness.

The Department will be actively involved in the future Joint National Training Capability (JNTC). For example, the Marine Corps is fully engaged in the JNTC program development, and is on track to enhance service core-competency training with the appropriate level of Joint context. It will participate in exercises including Combined Arms Exercises and Marine Aviation Weapons and Tactics Squadron-1 evolutions scheduled for FY 2005. Additionally, the Navy's continuing development of the Training Resource Strategy (TRS) to provide high quality training of our deploying combat forces

has also provided a model for effective networking of range capabilities necessary to achieve the JNTC vision. The complexity of training our high technology force in modern warfare requires this shift to a network of ranges and installations providing more training options, reduced pre-deployment training transit time, and has increased productive training days. The USS ENTERPRISE was the first CSG to deploy under the TRS, utilizing six training ranges, each unique to the successful completion of her qualification. The first fully integrated JNTC implementation event will be centered on a Navy Combined-Joint Task Force Exercise scheduled for Summer 2004. TRS also supports the FRP and will quickly respond to surge requirements by delivering and bringing to bear a capable fighting force.

Develop More Effective Organizations

To make the FRP a reality, the Navy/Marine Corps Team has completed the Carrier Strike Group alignment, and continues to experiment with the Expeditionary Strike Group (ESG) concept. The ESG, centered on the proven flexibility and combat power of a combined Marine Expeditionary Unit and Amphibious Readiness Group, adds the robust strike, anti-air, anti-surface, and anti-subsurface capabilities of a surface combatants and an attack submarine. These combined capabilities give the combat commander a wider variety of options and enables independent operations in more dynamic environments. Together, this partnership of the Navy-Marine Corps Team will support the essential elements of joint transformation by projecting persistent, credible combat power ashore. The pilot deployment of the first ESG, ESG 1, composed of west coast Navy and Marine forces, is currently deployed and is scheduled to return shortly. The *Wasp* ESG, composed of east coast Navy and Marine forces, deployed in February of this year.

Additionally, in FY 2005, the Department will continue the integration of Navy and Marine Corps tactical air power that will provide a more potent, cohesive, and affordable fighting force that is in concert with enhanced Seabasing concepts, guaranteeing more responsive Naval TacAir support to the joint warfighter. Through this integration, the Department will reduce the number of tactical aircraft (JSF and F/A-18) from 1,637 to 1,140 by 2021. The culmination of this long-term effort is an increased level of readiness by effectively husbanding the resources given to us, generating an anticipated savings of several billion dollars.

Define and Develop Transformational Capabilities

We continue to develop transformational capabilities enhanced through new systems/platforms, including: next-generation aircraft carrier (CVN-21) development; augmentation and replacement of DD-21 with a new family of ships – Littoral Combat Ship (LCS) and DD(X); one more SSBN-to-SSGN conversion; accelerated investment in

transformational platforms to move troops and equipment (MPF(F), LPD 17 and transformational aircraft in both strike and supporting roles (JSF, MV-22, F/A-18 E/F, EA-18G, E-2 Advanced Hawkeye (AHE), MMA, BAMS, UAV, JUCAS). In addition, MPF(A) and HSV capabilities were added within the FYDP in support of critical Seabasing capabilities. The Department is also increasing warfighting capabilities by modernizing our Ticonderoga class cruisers, launching of the new USS VIRGINIA (SSN 774), commissioning of the aircraft carrier USS RONALD REAGAN (CVN 76), and continued timely delivery of the Arleigh Burke class guided missile destroyers.

The FY 2005 shipbuilding plan supports our transformational vision and increases the number of new construction ships from seven in FY2004 to nine in FY 2005. This increases the shipbuilding rate to 9.6 battle force ships per year from 8.7 battle force ships per year across the Future Year Defense Plan (FYDP), reducing the procurement gap. Additionally, the FY 2005 plan completes the purchases of DDG-51 class ships and establishes the foundations for the new DD(X) and LCS classes of ships. The DD(X) and LCS lead ship detail design and construction are planned to start in FY 2005. These focused mission ships will contribute significantly to the Sea Shield core operational requirement of *Naval Power 21*. The FY 2005 plan also continues to fund accelerated development of several critical technologies into the CVN 21 lead ship, providing earlier delivery of transformational capability to the fleet.

In order to complete our Seabasing capability, we are pursuing improvements in our amphibious lift with the construction of the LPD 17, and continued development of LHA(R) to enable our Naval forces to meet the goal of 12 amphibious ready groups (ARGs) capable of lifting 2.5 Marine Expeditionary Brigade (MEB) Assault Equivalents (AEs). In FY 2003, we completed the lead ship design and over 80 percent of the construction on the lead LPD 17 ship. In FY 2005, the first LPD 17, the USS SAN ANTONIO, will be launched, and the Department will continue research and development on the LHA (R). The Maritime Prepositioning Force (Future) – MPF(F) – will be another key enabler of seabased operations that will allow us to better exploit the maneuver space provided by the sea to enable and conduct joint operations at a time and place of our choosing. The enhanced capabilities of these ships will significantly increase the capability of the Sea Base – in the Seabasing Concept – to provide unimpeded mobility and persistent sustainment.

The Department's aviation goals are aimed at maintaining the continued superiority of Navy and Marine Corps aviation for the next generation. During this past year, we continued to enjoy the fruits of our aviation investments with the first successful deployment and operational employment of an F/A-18 E/F squadron in support of Operation Iraqi Freedom. The Department's aircraft procurement plan emphasizes replacing costly stand-alone legacy platforms with more efficient and capable integrated systems, which has resulted in significant investments in transformational aircraft and

program investments across the spectrum of aviation capabilities. Procurement of aircraft in FY 2005 increases to 104, vice 100 in FY2004. This year the Navy has signed a new multi-year procurement contract with Boeing to procure 210 aircraft over the next 15 years. This multi-year procurement includes the F/A-18E/F Super Hornet, as well as the EA-18G Airborne Electronic Attack (AEA) aircraft, which will replace the aging EA-6B.

The V-22 remains a critical priority. The V-22's increased capabilities of range, speed, payload and survivability will generate truly transformational tactical and operational opportunities. We returned the MV-22 program to flight by crafting the test and deployment strategy to satisfy OSD's flight safety and operational reliability concerns. The program is expected to continue at least another 18 months when Milestone III, the point at which full rate production is expected, is planned for fall of 2005.

The Department is also continuing to move forward with the Joint Strike Fighter (JSF) Program, although that program has been restructured to accommodate System Development and Demonstration. The JSF recently completed the 2nd year of a 10-11 year development program. JSF development is experiencing a variety of typical challenges that affect System Develop and Demonstration (SDD) program schedule and cost. Additional design work is required to address technical issues, primarily weight projections, resulting in SDD cost increase, SDD schedule delays, and one-year slip to starting Low Rate Initial Production (LRIP). We clearly believe current issues are solvable within normal parameters of design fluctuation, and have taken appropriate steps necessary to manage these challenges.

The FY 2005 budget also demonstrates the Department's goal of developing, acquiring and fielding transformational Unmanned Aerial Vehicle (UAV) technologies for Intelligence, Surveillance and Reconnaissance and tactical missions. This system will support the CSG and ESG by providing wide area surveillance for situational awareness and battlespace management. The budget includes developmental funding for the Broad Area Maritime Surveillance (BAMS), with the goal of providing an Initial Operational Capability (IOC) in FY 2010. The Navy is also participating in the joint effort to develop the Joint Unmanned Combat Air System (J-UCAS).

In keeping with the Department's goal to achieve an organic mine warfare capability in 2005, the budget includes funding to meet scheduled strike group deployments while maintaining funding for a potent and dedicated Mine Countermeasure (MCM) force. The FY 2005 budget reflects an increase in $167 million across the FYDP for mine warfare programs, such as the development of the AQS-20A Mine-hunting System and the Airborne Laser Mine Detection System (ALMDS), the Airborne Mine Neutralization System (AMNS), the Rapid Airborne Mine Clearance System (RAMICS), the Organic Airborne and Surface Influence Sweep (OASIS) system, and a single common console for all organic Airborne Mine Counter Measures (AMCM) systems. Additionally, the

FY 2005 budget continues the development and acquisition of the Long-Term Mine Reconnaissance System (LMRS) and the Remote Mine-hunting System. Finally, the plan also includes funding for the Assault Breaching System (ABS) to add mine and obstacle clearance capability in the beach and surf zones.

Pushing the state-of-the-art in transformational weapons technologies, we have invested in key demonstration programs. These include the Active Denial System for Force Protection, the Free Electron Laser for both Force Protection and Missile Defense, and Electromagnetic Gun efforts that will eventually support many Navy and Marine Corps missions, including extended range naval gunfire support. This will lead to a mix of kinetic and non-kinetic capabilities optimally suited to the electric ship of the future, and the emergent threats to both Sailors and Marines.

In the area of munitions, the Department's weapon procurement programs continue to maintain warfighting wholeness. A robust weapons procurement profile supports the Navy and Marine Corps strategy by acquiring advanced technology weapons and funding current warfighting capability gaps, assuming acceptable risk in areas where warfighting wholeness is strong, and identifying and divesting in areas of excess capability. The Navy made valuable investments in PGMs to ramp-up production for OEF/OIF and subsequently support on-going replenishment of needed wartime expended inventories. The FY 2005 budget request will continue to enhance the Department's warfighting capability by funding existing production programs, improving the capability, lethality and overall effectiveness of fielded PGMs as well as developing new capabilities.

A viable Regional and Terminal sea based ballistic missile defense system is important to ensure the safety of U.S. forces and the flow of U.S. forces through foreign ports and air fields when required. Sea based missile defense can also allow us to assist allies and friends deterring coercion and threats. Aegis Ballistic Missile Defense (ABMD) continues its development and testing and will support Initial Defensive Operations beginning in September 2004, with surveillance and track capability in the Command and Control, Battle Management and Communications (C2BMC) and regional missile defense engagement capability in FY 2005.

We are also working to improve our expeditionary combat capability with the continued development of the Expeditionary Fighting Vehicle (EFV), to provide surface assault elements the requisite operational and tactical mobility to exploit opportunities in the fluid operational environment of the future in support of Joint operations. With its high-speed water and land maneuver, the EFV will significantly enhance the lethality, survivability, and operational/tactical agility of Marine maneuver units and provide the Marine Air Ground Task Force and Expeditionary Strike Group with increased operational tempo throughout the battle space and across the spectrum of operations. The FY 2005 target is to have the production representative vehicle delivered.

To accelerate the transformation of our Naval forces, we are also continuing to improve the inter-operability among networks, sensors, weapons, and platforms through FORCEnet. In 2003, its first year of funding, FORCEnet has begun to transform the Navy and Marine Corps in both processes and product. FORCEnet will provide the overarching framework and standard communication mechanism for future combat systems. A critical subset application already being procured is the Cooperative Engagement Capability (CEC), which will be installed on 38 ships and 4 squadrons (16 aircraft) by FY 2006. CEC will enable real time data between battle force units, each having the identical picture to conduct engagements.

Another critical system supporting FORCEnet is the Advanced Digital Networking System (ADNS). Upgrades will be fielded starting this year on all ships, to provide significant improvements in shipboard data capacity, availability and speed. Also beginning this year, the Common Data Link – Navy (CDL-N) Block 1 upgrades will provide high-bandwidth Intelligence, Surveillance and Reconnaissance (ISR) data dissemination by networking aircraft to ships using multiple protocols.

In order to enable shared access to Service/Agency/joint-provided data sources, the Navy is poised to evolve the Global Command and Control System (GCCS) from its current state of joint and Service variants to a single Joint Command and Control (JC2) architecture and capabilities-based implementation on Global Information Grid (GIG) enterprise services. The latest spiral development of GCCS-M will begin fielding late in FY 2004 and will employ a secure, collaborative, web-enabled, and tailorable C2 architecture that will be fully interoperable with JC2, when it begins fielding.

The next step in Net Centric Undersea Warfare (USW), Common Undersea Picture (CUP), begins fielding in FY 2005. It will integrate stove-piped USW Tactical Decision Aids on DDGs, FFGs, CGs, SSNs, and CVNs, to form a common set of sensor data that can be shared among platforms in a CSG/ESG. CUP will leverage existing communications paths, networks, displays, and multi-platform sensor data to help the various warfare commanders plan, conduct and coordinate USW operations with improved asset allocation and battlespace awareness.

We firmly believe that experimentation is critical to achieving future combat capabilities, and have continued our focus in this area. Sea Trial continued in FY 2003 to put operational experimentation in the hands of the warfighters. Joint wargames, experiments and exercises coordinated by Commander, Fleet Forces Command (CFFC) will continue to develop new operational concepts and methods to employ technology, such as the Distributed Common Ground System-Navy (DCGS-N) and High Speed Vessels. The first FORCEnet at-sea event, "Giant Shadow", was successfully conducted with air, surface, and subsurface units and demonstrated Network Centric Warfare technology and

tactics. The first FORCEnet joint operational event, "Trident Warrior 03" was successfully completed with Forward Deployed Naval forces. Additionally, the Marine Corps Sea Viking Campaign is inherently complementary to the Joint concept development and experimentation campaign of Joint Forces Command and the Navy's Sea Trial experimentation process. It is exploring future concepts and capabilities needed to conduct forcible entry from the sea as part of an overall Joint concept for forcible entry against concerted anti-access efforts. The Department of the Navy is also exploring the potential for an expanded Seabasing capability in support of future Joint operations.

Institutional Risk

The FY 2005 performance plan represents the Department's commitment to improve the acquisition processes, make facility structure more efficient, and better manage resources. The Navy Marine Corps Intranet, Enterprise Resource Planning, and our eBusiness office are examples of innovative changes that will significantly improve connectivity, financial and business reporting, and management performance. As a department, we continue to aggressively challenge our Systems Commands and other shore activities to find efficiencies, reduce contractor support and eliminate legacy information systems.

Streamline the Decision Process, Drive Financial Management and Acquisition Excellence

Focusing on specific actions we could take within existing statutory and regulatory guidelines during FY 2003 at the headquarters' level, we realigned the PPBS by virtually merging the Program Objectives Memorandum (POM) and Budget end-game processes and eliminating duplicative oversight reviews. Additionally, we began consolidating the POM and budget databases into one entity (the Program Budget Information System (PBIS)). We have also substantially streamlined our business practices to work toward a more efficient Navy and Marine Corps. By emulating smart business practices from commercial industry, we have made management teams more product-oriented, pushing down responsibility, authority and accountability to the operational unit(s) or performing activities wherever possible. We are developing leaders with a better understanding of business strategies, cost control, program risk and rapid flexible design.

We have increased the use of activity-based costing and continue to streamline the three major decision processes – Planning, Programming, Budgeting and Execution System (PPBES), acquisition management, and requirements formulation. Divestiture is allowing us to reallocate savings to more urgent requirements through the reduction or elimination of legacy systems, programs and organizations.

Improve the Readiness and Quality of Key Facilities

In an effort to improve shore installation effectiveness, the Navy identified best business practices, set enterprise-wide standards of service, developed metrics and linked standards and metrics to requirements and fleet readiness. As a commitment to improving management effectiveness and enterprise-wide alignment, the Navy consolidated management oversight of all Navy shore installations into a single Commander Navy Installations Command on 1 October 2003. This consolidation will achieve economies of scale, increase efficiency, and reduce headquarters staffs while also standardizing policies and service levels across all Navy installations. Facility readiness reports show that 40 percent of Navy installations were fully mission-capable in FY 2003, compared to 32 percent in FY 2002. Additionally, by consolidating all base operations worldwide and implementing common support practices the Navy expects to save $65 million over the next six years.

In response to DoD-established facility quality goals, the Department plans to meet the facility sustainment goal of 95 percent in FY 2005, and we will continue to meet the facility recapitalization rate goal of 67 years by FY 2008, while at the same time balancing risk tradeoffs to maintain force readiness and to invest in essential combat capability.

We also continue our goal of improving housing for members and their families through increased BAH compensation, partnering with the private sector in Public/Private Ventures (PPV), and budgeting for traditional military construction where appropriate. We awarded 11 PPV projects for some 16,000 homes through FY 2003, with plans to award projects totaling over 23,000 homes at nine Navy and Marine Corps locations during FY 2004 and FY 2005. We are on track to eliminate all inadequate housing by FY 2007. Additionally, we have set a performance goal for reducing out-of-pocket expenses for housing to zero in FY 2005, vice 3.5 percent set for FY 2004.

In a continuation of BRAC land sales we sold 235 acres at the former Marine Corps Air Station Tustin, CA in FY 2003 through an "E-Bay"-like auction on the GSA internet web site and are applying the net $204 million in proceeds to accelerate cleanup of environmental contamination at nine prior BRAC locations. In January 2004, we completed the sale of Prior BRAC property at Key West, FL, and Long Beach, CA. for an additional $26 million that will also be applied to cleanup. Additional land sales are planned. We expect less than 7 percent (about 11,000 acres) of the original total of 161,000 acres of prior BRAC property will be left to dispose by the end of FY 2004.

The Department is also working closely with OSD and the other Military Departments to prepare for BRAC 2005. This effort is vital to transform our shore infrastructure in the

same manner we are transforming our forces, and to gain greater efficiencies by identifying and eliminating excess infrastructure. We assembled a full time staff and issued the first data call to Navy and Marine Corps installation commanders in January 2004, which will serve as the basis for the analysis.

Manage Overhead and Indirect Cost

We fully understand that in order to re-capitalize our weapon systems, inefficiencies within our business practices require true transformation. Sea Enterprise, as the *Naval Power 21* resource enabler, seeks to improve organizational alignment, refine requirements and invest resources to re-capitalize, transform, and increase the combat capability of our Naval force. Drawing on lessons from the business revolution, Sea Enterprise will streamline organizations, improve productivity and cost effectiveness, and reduce manpower investments by adopting best practices, streamlining processes and leveraging technology. It focuses headquarters leadership on outputs and execution, and creating ideas that will improve our productivity and better manage overhead and indirect costs. The Department's leadership is actively engaged in tracking the execution of ongoing Sea Enterprise initiatives. To date, Sea Enterprise has identified significant savings that have been incorporated into the FY 2005 budget. Focused on efficiency and productivity improvements, the Department will generate the resources necessary to augment our investment stream and implement our *Naval Power 21* vision – delivering the right force, with the right level of readiness, at the right cost.

The Sea Enterprise concept highlights that our leadership requires a thorough understanding of the cost implications of every course of action in their decision-making processes. The Department has implemented several enterprise-wide Sea Enterprise initiatives in FY 2003 that enable reprogramming of resources in order to re-capitalize. Specific initiatives include: converging our Enterprise Resource Planning (ERP) pilots into an end-to-end Operating Systems; incorporating proven would class Efficiency Methodologies into our day-to-day operations; implementing additional Multi-Ship/Multi-Option (MSMO) repair contracts and Performance Based Logistics (PBL) agreements; and implementing Strategic Sourcing.

The Navy virtual ERP program office was stood up in FY 2003 to reinvent and standardize Navy business processes for acquisition, financial and logistics operations. Our four pilots demonstrated significant improvements in efficiency and effectiveness. Navy ERP will provide a standard set of tools to Navy organizations that will facilitate business process reengineering and provide interoperable data elements for acquisition, financial management, and logistics.

The Department is aggressively pursuing Performance Based Logistics (PBL) as the preferred weapon system support strategy. PBL support strategies are evolving into

increasing comprehensive contracts that provide support for entire weapon systems, sub-systems, and platforms. The contracts are buying performance vice the old paradigm of procuring spare parts with the benefit of significant improvement in capability and reliability at a reduced cost.

The Navy Strategic Sourcing program is focusing on those efforts that are critical to the conduct of the Department's business. Our efforts are focused on three avenues to implement efficiencies: The A-76 Competitive Sourcing program; Strategic Manpower Planning; and Divestiture. The Department's A-76 Competitive Sourcing program has successfully competed 25,400 positions since 1998 and plans to conduct studies on an additional 29,000 positions in FY 2004 – FY 2008. The Strategic Manpower Planning effort is focused on ensuring uniform service members are performing assignments that are inherently military and converting functions that are commercial in nature to civilian or contractor performance. The Department has identified approximately 4,700 military positions for conversions in FY 2004 and FY 2005. The Divestiture effort will look at opportunities to outsource a function that is not a core competency of the Department and that is readily available in the commercial sector. In one such Divestiture initiative, the Department is studying whether to divest the Navy's optical fabrication to private industry. The Navy employs 380 military and civilian personnel and spends $36 million per year to produce 1.3 million pairs of eyeglasses. We plan to complete the study in FY 2004. Departmental budget estimates reflect projected Strategic Sourcing annual steady state net savings exceed $1 billion beginning in FY 2005.

Navy leadership of the Business Initiatives Council (BIC) is key to the Sea Enterprise effort as well. Where these initiatives may have applicability across the Services, Sea Enterprise is the feeder for Navy BIC initiatives. We will continue to pursue product and process efficiencies and evaluate other business processes through the Sea Enterprise effort and the Business Management Modernization Program (BMMP) for opportunities to be more effective while improving our warfighting capability.

Lastly, the Department of the Navy eBusiness initiative is achieving effective business solutions through eBusiness transformation. To date, the Navy and Marine Corps Team has funded 54 eBusiness pilot projects through rigorous selection criteria. These pilot projects have provided solutions in a variety of areas including Distance Support, Maintenance/Engineering, Readiness, Communications, Supply Chain Management, Medical, and Procurement.

Conclusion

Our Naval forces continue to lead from the front lines of the Global War on Terrorism and continue to answer the call of our Nation. Together with our fellow services, we will assure our friends and allies and we will dissuade, deter and defeat our nation's enemies.

While our Navy and Marine Corps Team faces uncertain future battlegrounds, we have set a course to win our nation's wars and transform to meet tomorrow's challenges. Naval forces remain a critical and unique element for implementing the U.S. *National Security Strategy*. Throughout history, the Navy and Marine Corps Team answered the President's call to duty by being the first on station with staying power. Our forces leverage the freedom of maneuver provided by the open oceans and deliver persistent sovereign combat Naval forces to Combatant Commanders around the globe. This is the value credible forward deployed Naval forces can provide our nation.

To make the most efficient use of scare resources, future investments will be based on rational decision-making driven by assessment of performance measures. Deciding on the right naval capabilities will be balanced across the risk management areas. Sustaining this investment in Naval forces will help protect and promote American interests by allowing the forward deployed Navy and Marine Corp Team to shape the international security environment and to respond to the full spectrum of crises.